



## Senate

General Assembly

**File No. 683**

*January Session, 2007*

Substitute Senate Bill No. 848

*Senate, May 2, 2007*

The Committee on Finance, Revenue and Bonding reported through SEN. DAILY of the 33rd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

### ***AN ACT CONCERNING LOANS TO MUNICIPALITIES TO FULLY FUND PENSION SYSTEMS.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subsection (a) of section 3-20a of the general statutes is  
2 repealed and the following is substituted in lieu thereof (*Effective July*  
3 *1, 2007*):

4 (a) Provisions of this section shall apply to general obligation bonds  
5 or notes issued pursuant to section 3-20, special tax obligation bonds or  
6 notes issued pursuant to sections 13b-74 to 13b-77, inclusive,  
7 abandoned property fund bonds issued pursuant to section 3-62h,  
8 Clean Water Fund bonds or notes issued pursuant to section 22a-483,  
9 Bradley International Airport bonds or notes issued pursuant to  
10 sections 15-101k to 15-101p, inclusive, unemployment compensation  
11 bonds or notes issued pursuant to sections 31-264a and 31-264b,  
12 UConn 2000 bonds or notes issued pursuant to sections 10a-109a to  
13 10a-109y, inclusive, Second Injury Fund bonds or notes issued

14 pursuant to section 31-354b and sections 8 and 9 of public act 96-242\*,  
15 and revenue anticipation bonds issued pursuant to section 13b-79r,  
16 and municipal pension solvency account bonds issued pursuant to  
17 section 4 of this act.

18 Sec. 2. (NEW) (*Effective July 1, 2007*) As used in this section and  
19 sections 3 and 4 of this act:

20 (1) "Municipal pension solvency account" means the account created  
21 in section 3 of this act;

22 (2) "Loan program" means the loans given to municipalities by the  
23 state pursuant to sections 3 and 4 of this act;

24 (3) "Municipality" means any metropolitan district, town,  
25 consolidated town and city, consolidated town and borough, city,  
26 borough, village, fire and sewer district, sewer district or public  
27 authority and each municipal organization having authority to levy  
28 and collect taxes or make charges for its authorized function;

29 (4) "Municipal pension solvency loan" means a loan made to a  
30 recipient by the state from the municipal pension solvency account;

31 (5) "Municipal pension solvency account agreement" means a  
32 written agreement between the state, acting by and through the  
33 Treasurer and a recipient with respect to a municipal pension solvency  
34 loan as provided under sections 3 and 4 of this act;

35 (6) "Priority list of eligible municipalities" means the list established  
36 by the Treasurer pursuant to subsection (f) of section 3 of this act;

37 (7) "Recipient" means a municipality receiving a municipal pension  
38 solvency loan; and

39 (8) "State bond anticipation note" means any note or notes issued by  
40 the state in anticipation of the issuance of bonds.

41 Sec. 3. (NEW) (*Effective July 1, 2007*) (a) There is established an  
42 account to be known as the "municipal pension solvency account"

43 which shall be a separate nonlapsing account within the General Fund.  
44 The account shall contain: (1) The proceeds of notes, bonds or other  
45 obligations issued by the state for the purpose of deposit in said  
46 account and use in accordance with this section and section 4 of this  
47 act; (2) payments received from any municipality in repayment of a  
48 municipal pension solvency loan; (3) interest or other income earned  
49 on the investment of moneys in said account; and (4) any additional  
50 moneys made available from any sources, public or private, for the  
51 purposes for which said account was established and for the purpose  
52 of deposit in said account.

53 (b) Within the municipal pension solvency account, there shall be  
54 two subaccounts: (1) A state bond receipts subaccount into which shall  
55 be deposited the proceeds of notes, bonds or other obligations issued  
56 by the state for the purpose of deposit in said account, and (2) an  
57 additional moneys receipts subaccount into which shall be deposited  
58 any additional moneys made available from any sources, public or  
59 private, for the purposes for which said account was established and  
60 for the purpose of deposit in such subaccount. Moneys in each  
61 subaccount created under this subsection may be expended by the  
62 Treasurer for any of the purposes of the municipal pension solvency  
63 account and investment earnings of a subaccount shall be deposited in  
64 such subaccount.

65 (c) In addition to the subaccounts established in subsection (b) of  
66 this section, the Treasurer may establish such additional subaccounts  
67 within the municipal pension solvency account as necessary to  
68 effectuate the purposes of this section and section 4 of this act,  
69 including, but not limited to, subaccounts (1) to segregate a portion or  
70 portions of the corpus of the account or as security for revenue bonds  
71 issued by the state for deposit in the account, (2) to segregate  
72 investment earnings on all or a portion of the account, or (3) to  
73 segregate moneys in the account that have previously been expended  
74 for the benefit of a loan recipient from moneys that are initial deposits  
75 in the account.

76 (d) Investment earnings credited to the assets of the municipal  
77 pension solvency account and to any subaccount of said account shall  
78 become part of the assets of said account and such subaccount.

79 (e) (1) Amounts in the municipal pension solvency account shall be  
80 available to the Treasurer to establish a loan program to provide loans  
81 to any municipality to fund such municipality's employee pension  
82 fund. Amounts in the municipal pension solvency account shall be  
83 used only: (A) To make loans to municipalities at an interest rate to be  
84 established pursuant to subdivision (2) of this subsection, provided  
85 such loans shall not exceed a term of twenty years and shall have  
86 principal and interest payments commencing not later than one year  
87 after the date of issuance of the loan, (B) for the payment of costs for  
88 administration and management of the municipal pension solvency  
89 account, (C) to be invested and earn interest on moneys in said  
90 account, (D) provided such amounts are not required for the purposes  
91 of said account, to pay debt service on bonds of the state issued to fund  
92 the municipal pension solvency account, or for the purchase or  
93 redemption of such bonds, and (E) for any other purpose of the  
94 municipal pension solvency account and the loan program.

95 (2) The interest rate on each municipal pension solvency loan shall  
96 be the same as the interest rate paid by the state on the bonds, notes or  
97 obligations issued by the state to finance such loan.

98 (f) (1) The Treasurer shall maintain a priority list of eligible  
99 municipalities and shall establish a ranking system for making  
100 municipal pension solvency loans to municipalities. In establishing  
101 such priority list and ranking system, the Treasurer shall consider all  
102 factors said Treasurer deems relevant, including, but not limited to, the  
103 following:

104 (A) The amount of a municipality's unfunded pension liability;

105 (B) A municipality's ability to eliminate, or substantially eliminate,  
106 its unfunded pension liability by taking a municipal pension solvency  
107 loan under the loan program; and

108 (C) The state's interest in assisting the maximum number of  
109 communities with the funds available under the loan program.

110 (2) Municipal pension solvency loans shall be made pursuant to a  
111 municipal pension solvency account agreement between the state,  
112 acting by and through the Treasurer, and the municipality seeking  
113 such loan. A municipal pension solvency account agreement shall be in  
114 a form prescribed by the Treasurer and shall contain penalty  
115 provisions for municipalities that fail to make contributions to their  
116 pension funds as required under such agreement.

117 Sec. 4. (NEW) (*Effective July 1, 2007*) (a) For the purposes of this  
118 section and section 3 of this act, the State Bond Commission shall have  
119 the power, from time to time, to authorize the issuance of bonds of the  
120 state in one or more series and in principal amounts not exceeding in  
121 the aggregate twenty-five million dollars.

122 (b) The proceeds of the sale of any bonds, state bond anticipation  
123 notes or other obligations issued pursuant to sections 2 to 4, inclusive,  
124 of this act shall be deposited in the municipal pension solvency  
125 account established in section 3 of this act.

126 (c) All provisions of section 3-20 of the general statutes, or the  
127 exercise of any right or power granted thereby which are not  
128 inconsistent with the provisions of this section and section 3 of this act  
129 are hereby adopted and shall apply to all bonds authorized by the  
130 State Bond Commission pursuant to said sections, and temporary  
131 notes in anticipation of the money to be derived from the sale of any  
132 such bonds so authorized may be issued in accordance with said  
133 section 3-20 of the general statutes and from time to time renewed.  
134 None of said bonds shall be authorized except upon a finding by the  
135 State Bond Commission that there has been filed with it a request for  
136 such authorization, which is signed by or on behalf of the Secretary of  
137 the Office of Policy and Management and states such terms and  
138 conditions as said commission, in its discretion, may require. Said  
139 bonds issued pursuant to this section and section 3 of this act may be  
140 general obligations of the state and in such case the full faith and credit

141 of the state of Connecticut are pledged for the payment of the principal  
142 of and interest on said bonds as the same become due, and accordingly  
143 and as part of the contract of the state with the holders of said bonds,  
144 appropriation of all amounts necessary for punctual payment of such  
145 principal and interest is hereby made, and the Treasurer shall pay such  
146 principal and interest as the same become due. Such general obligation  
147 bonds shall mature at such time or times not exceeding twenty years  
148 from their respective dates as may be provided in or pursuant to the  
149 resolution or resolutions of the State Bond Commission authorizing  
150 such general obligation bonds.

151 (d) Notwithstanding the provisions of subsection (c) of this section,  
152 nothing in this section shall preclude the State Bond Commission from  
153 authorizing the issuance of revenue bonds that are not general  
154 obligations of the state of Connecticut to which the full faith and credit  
155 of the state of Connecticut are pledged for the payment of the principal  
156 and interest. Such revenue bonds shall mature at such time or times  
157 not exceeding twenty years from their respective dates as may be  
158 provided in or pursuant to the resolution or resolutions of the State  
159 Bond Commission authorizing such revenue bonds. The revenue  
160 bonds, revenue state bond anticipation notes and revenue state grant  
161 anticipation notes authorized to be issued under this section and  
162 section 3 of this act shall be special obligations of the state and shall not  
163 be payable from nor charged upon any funds other than the revenues  
164 or other receipts, funds or moneys pledged therefor as provided in this  
165 section and section 3 of this act, including the repayment of municipal  
166 loan obligations; nor shall the state or any political subdivision thereof  
167 be subject to any liability thereon except to the extent of such pledged  
168 revenues or the receipts, funds or moneys pledged therefor as  
169 provided in this section and said section 3. The issuance of revenue  
170 bonds, revenue state bond anticipation notes and revenue state grant  
171 anticipation notes under the provisions of this section and said section  
172 3 shall not directly or indirectly or contingently obligate the state or  
173 any political subdivision of the state to levy or to pledge any form of  
174 taxation whatever therefor or to make any appropriation for their  
175 payment. The revenue bonds, revenue state bond anticipation notes

176 and revenue state grant anticipation notes shall not constitute a charge,  
177 lien or encumbrance, legal or equitable, upon any property of the state  
178 or of any political subdivision of the state, except the property  
179 mortgaged or otherwise encumbered under the provisions and for the  
180 purposes of this section and section 3 of this act. The substance of such  
181 limitation shall be plainly stated on the face of each revenue bond,  
182 revenue state bond anticipation note and revenue state grant  
183 anticipation note issued pursuant to this section and said section 3  
184 shall not be subject to any statutory limitation on the indebtedness of  
185 the state and such revenue bonds, revenue state bond anticipation  
186 notes and revenue state grant anticipation notes, when issued, shall  
187 not be included in computing the aggregate indebtedness of the state  
188 in respect to and to the extent of any such limitation. As part of the  
189 contract of the state with the owners of such revenue bonds, revenue  
190 state bond anticipation notes and revenue state grant anticipation  
191 notes, all amounts necessary for the punctual payment of the debt  
192 service requirements with respect to such revenue bonds, revenue  
193 state bond anticipation notes and revenue state grant anticipation  
194 notes shall be deemed appropriated, but only from the sources  
195 pledged pursuant to this section and said section 3. The proceeds of  
196 such revenue bonds or notes may be deposited in the municipal  
197 pension solvency account for use in accordance with the permitted  
198 uses of said account. Any expense incurred in connection with the  
199 carrying out of the provisions of this section, including the costs of  
200 issuance of revenue bonds, revenue state bond anticipation notes and  
201 revenue state grant anticipation notes may be paid from the accrued  
202 interest and premiums or from any other proceeds of the sale of such  
203 revenue bonds, revenue state bond anticipation notes or revenue state  
204 grant anticipation notes and in the same manner as other obligations of  
205 the state. All provisions of subsections (g), (k), (l), (s) and (u) of section  
206 3-20 of the general statutes or the exercise of any right or power  
207 granted thereby which are not inconsistent with the provisions of this  
208 section and said section 3, are hereby adopted and shall apply to all  
209 revenue bonds, state revenue bond anticipation notes and state  
210 revenue grant anticipation notes authorized by the State Bond

211 Commission pursuant to this section and said section 3. For the  
212 purposes of subsection (o) of section 3-20 of the general statutes, "bond  
213 act" shall be construed to include this section and said section 3.

214 (e) Any pledge made by the state pursuant to this section and  
215 section 3 of this act is a statutory pledge and shall be valid and binding  
216 from the time when the pledge is made, and any revenues or other  
217 receipts, funds or moneys so pledged and thereafter received by the  
218 state shall be subject immediately to the lien of such pledge without  
219 any physical delivery thereof or further act. The lien of any such  
220 pledge shall be valid and binding as against all parties having claims  
221 of any kind in tort, contract or otherwise against the state, irrespective  
222 of whether such parties have notice thereof. Neither the resolution nor  
223 any other instrument by which a pledge is created need be recorded.

224 (f) Bonds, state bond anticipation notes and state grant anticipation  
225 notes issued pursuant to this section and section 3 of this act are  
226 hereby made securities in which public officers and public bodies of  
227 the state and its political subdivisions, all insurance companies, credit  
228 unions, building and loan associations, investment companies,  
229 banking associations, trust companies, executors, administrators,  
230 trustees and other fiduciaries and pension, profit-sharing and  
231 retirement funds may properly and legally invest funds, including  
232 capital in their control or belonging to them. Such bonds, state bond  
233 anticipation notes and state grant anticipation notes are hereby made  
234 securities which may properly and legally be deposited with and  
235 received by any state or municipal officer or any agency or political  
236 subdivision of the state for any purpose for which the deposit of  
237 bonds, state bond anticipation notes, state grant anticipation notes or  
238 other obligations of the state is now or may hereafter be authorized by  
239 law.

240 (g) The proceedings under which bonds are authorized to be issued  
241 may, subject to the provisions of the general statutes, contain any or all  
242 of the following: (1) Provisions respecting custody of the proceeds  
243 from the sale of the bonds and any bond anticipation notes, including

244 any requirements that such proceeds be held separate from or not be  
245 commingled with other funds of the state; (2) provisions for the  
246 investment and reinvestment of bond proceeds utilized to pay project  
247 costs and for the disposition of any excess bond proceeds or  
248 investment earnings thereon; (3) provisions for the execution of  
249 reimbursement agreements or similar agreements in connection with  
250 credit facilities, including, but not limited to, letters of credit or policies  
251 of bond insurance, remarketing agreements and agreements for the  
252 purpose of moderating interest rate fluctuations, and of such other  
253 agreements entered into pursuant to section 3-20a of the general  
254 statutes, as amended by this act; (4) provisions for the collection,  
255 custody, investment, reinvestment and use of the pledged revenues or  
256 other receipts, funds or moneys pledged therefor as provided in this  
257 section and section 3 of this act; (5) provisions regarding the  
258 establishment and maintenance of reserves, sinking funds and any  
259 other funds and accounts as shall be approved by the State Bond  
260 Commission in such amounts as may be established by the State Bond  
261 Commission, and the regulation and disposition thereof, or the  
262 establishment of a reserve fund of the state into which may be  
263 deposited any moneys appropriated and made available by the state  
264 for such fund, any proceeds of the sale of bonds or notes, to the extent  
265 provided in the resolution of the state authorizing the issuance thereof,  
266 and any other moneys which may be made available to the state for  
267 the purpose of such fund from any source whatever; (6) covenants for  
268 the establishment of pledged revenue coverage requirements for the  
269 bonds and state bond anticipation notes; (7) provisions for the issuance  
270 of additional bonds on a parity with bonds theretofore issued,  
271 including establishment of coverage requirements with respect thereto  
272 as provided in this section; (8) provisions regarding the rights and  
273 remedies available in case of a default to bondowners, noteowners or  
274 any trustee under any contract, loan agreement, document, instrument  
275 or trust indenture, including the right to appoint a trustee to represent  
276 their interests upon occurrence of an event of default, as defined in  
277 said proceedings, provided that if any bonds or state bond anticipation  
278 notes shall be secured by a trust indenture, the respective owners of

279 such bonds or notes shall have no authority except as set forth in such  
280 trust indenture to appoint a separate trustee to represent them; (9)  
281 provisions for the payment of rebate amounts; and (10) provisions or  
282 covenants of like or different character from the foregoing which are  
283 consistent with sections 2 to 4, inclusive, of this act and which the State  
284 Bond Commission determines in such proceedings are necessary,  
285 convenient or desirable in order to better secure the bonds or state  
286 bond anticipation notes, or will tend to make the bonds or state bond  
287 anticipation notes more marketable, and which are in the best interests  
288 of the state. Any provision which may be included in proceedings  
289 authorizing the issuance of bonds hereunder may be included in an  
290 indenture of trust duly approved in accordance with this section and  
291 section 3 of this act which secures the bonds and any notes issued in  
292 anticipation thereof, and in such case the provisions of such indenture  
293 shall be deemed to be a part of such proceedings as though they were  
294 expressly included therein.

295 (h) Whether or not any bonds, state bond anticipation notes or state  
296 grant anticipation notes issued pursuant to this section and section 3 of  
297 this act are of such form and character as to be negotiable instruments  
298 under the terms of title 42a of the general statutes, such bonds, state  
299 bond anticipation notes and state grant anticipation notes are hereby  
300 made negotiable instruments within the meaning of and for all  
301 purposes of title 42a of the general statutes, subject only to the  
302 provisions of such bonds, state bond anticipation notes and state grant  
303 anticipation notes for registration.

304 (i) Pending the use and application of any bond proceeds, such  
305 proceeds may be invested by, or at the direction of the Treasurer, in  
306 obligations listed in section 3-20 of the general statutes or in  
307 investment agreements rated within the top rating categories of any  
308 nationally recognized rating service or in investment agreements  
309 secured by obligations, of or guaranteed by, the United States or  
310 agencies or instrumentalities of the United States.

311 (j) Any revenue bonds issued under the provisions of this section

312 and section 3 of this act and at any time outstanding may, at any time  
 313 and from time to time, be refunded by the state by the issuance of its  
 314 revenue refunding bonds in such amounts as the State Bond  
 315 Commission may deem necessary, but not to exceed an amount  
 316 sufficient to refund the principal of the revenue bonds to be so  
 317 refunded, to pay any unpaid interest thereon and any premiums and  
 318 commissions necessary to be paid in connection therewith and to pay  
 319 costs and expenses which the Treasurer may deem necessary or  
 320 advantageous in connection with the authorization, sale and issuance  
 321 of refunding bonds. Any such refunding may be effected whether the  
 322 revenue bonds to be refunded shall have matured or shall thereafter  
 323 mature. All revenue refunding bonds issued under this section shall be  
 324 payable solely from the revenues or other receipts, funds or moneys  
 325 out of which the revenue bonds to be refunded thereby are payable  
 326 and shall be subject to and may be secured in accordance with the  
 327 provisions of this section.

328 (k) The Treasurer shall have power, out of any funds available  
 329 therefor, to purchase revenue bonds, state revenue bond anticipation  
 330 notes and state revenue grant anticipation notes of the state issued  
 331 pursuant to this section and section 3 of this act. The Treasurer may  
 332 hold, pledge, cancel or resell such bonds or notes, subject to and in  
 333 accordance with agreements with bondholders or noteholders, as  
 334 applicable.

335 Sec. 5. (NEW) (*Effective July 1, 2007*) The Treasurer shall adopt  
 336 regulations, in accordance with the provisions of chapter 54 of the  
 337 general statutes, to carry out the purposes of sections 3 and 4 of this  
 338 act.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2007</i>	3-20a(a)
Sec. 2	<i>July 1, 2007</i>	New section
Sec. 3	<i>July 1, 2007</i>	New section
Sec. 4	<i>July 1, 2007</i>	New section

Sec. 5	<i>July 1, 2007</i>	New section
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**LAB**      *Joint Favorable C/R*      FIN

**FIN**      *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either chamber thereof for any purpose:

## **OFA Fiscal Note**

### **State Impact:**

Agency Affected	Fund-Effect	FY 08 \$	FY 09 \$
Treasurer, Debt Serv.	GF - Cost	See Below	See Below
Treasurer	GF - Cost	See Below	See Below

Note: GF=General Fund

**Municipal Impact:** None

### **Explanation**

The bill provides two options for funding a municipal loan program for the costs associated with pension systems: (1) General Obligation (GO) bonds and (2) revenue bonds. In both cases, taxable bonds would be issued because the bond proceeds would be invested in pension funds. The loans would be provided at the same interest rate as the rate on the bonds issued by the State.

The main risk to the state is that a municipality would be unable to repay its loan and the State would be obligated to pay the full debt service on the bonds. It is likely that municipalities would only choose to participate in the program if: (1) they were not able to borrow at interest rates comparable to the State because they were small or financially distressed or (2) they wanted to minimize their administrative costs. However, since the bill only authorizes the issuance of \$25 million in bonds it is not anticipated that such defaults would have an impact on the state's credit rating.

The bill authorizes the issuance of \$25 million in either General Obligation (GO) or revenue bonds.

#### If the state issues GO bonds:

1. The issuance cost is \$0.13 million.

2. The annual cost to the Office of the State Treasurer to administer the program is between \$0.5 million and \$0.75 million.
3. The maximum amount of debt service for which the General Fund would be liable if all towns defaulted on their loan payments is \$2.5 million.
4. The GO bonds would be a direct General Fund liability and would count against the statutory debt limit in CGS Sec. 3-21. No reserve account would be needed for the bonds.

If the state issues revenue bonds:

1. The issuance cost is \$0.13 million.
2. The annual cost to the Office of the State Treasurer to administer the program is between \$0.5 million and \$0.75 million.
3. Assuming that the State would not let a major revenue bond program default, the maximum amount of debt service for which the General Fund would be liable if all towns defaulted on their loan payments is \$2.5 million.
4. The revenue bonds would not be a direct or contingent General Fund liability and would have no effect on the debt limit. Debt service payments would be based solely on municipal loan repayments and it is expected that a significant reserve fund would need to be established to make the bonds marketable. Based on the Clean Water Fund loan program, the amount of the reserve fund would be \$0.50 for every \$1 of loan or a \$12.5 million reserve fund for a \$25 million bond issuance. It is not clear from the language in the bill: (a) whether the reserves would be funded from bond proceeds or some other sources, or (2) whether the cost of such reserves could be passed on to the participating municipalities.

**Municipal Impact**

The impact of the bill on municipalities is unclear because the bill only authorizes the State to offer the program but does not authorize the municipalities to borrow under it.

***The Out Years***

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

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**OLR Bill Analysis****sSB 848*****AN ACT CONCERNING LOANS TO MUNICIPALITIES TO FULLY FUND PENSION SYSTEMS.*****SUMMARY:**

This bill creates a municipal pension solvency loan program to provide municipalities with funds for their unfunded employee pension liabilities. The bill authorizes up to \$25 million in state bonds for the program. Loans will be made at the same interest rate the state pays on the bonds, notes, or obligations it issues to fund the program. The bill permits the bonds to be either general obligation or revenue bonds.

The bill requires the state treasurer to administer the program and establish a priority list of eligible towns and a ranking system for making the loans. The treasurer must consider the amount of a municipality's unfunded pension liability and whether the loan can eliminate or substantially eliminate the liability. Loan agreements must contain penalty provisions for municipalities that fail to contribute to their pension funds as required under the agreement.

The treasurer must adopt implementing regulations.

EFFECTIVE DATE: July 1, 2007

**MUNICIPAL PENSION SOLVENCY ACCOUNT**

The bill establishes a municipal pension solvency account as a nonlapsing account in the General Fund.

The proceeds of state bonds, notes, or other obligations issued for use under the bill must be deposited in the account and used in accordance the bill's provisions. The account also includes:

1. payments from any municipality to repay a municipal pension solvency loan;
2. interest or other income earned on account investments; and
3. any additional money available from other public or private sources.

The bill requires that funds in the account from state bonds, notes, or other obligations be kept in a separate subaccount from funds coming from other sources. It permits the treasurer to create additional subaccounts, as necessary, to segregate (1) a portion of the funds as security for revenue bonds, (2) investment earnings, or (3) money that has been previously expended from money that is initially deposited. The bill requires investment earnings credited to any subaccount to remain part of that subaccount.

## **MUNICIPAL PENSION LOANS**

### ***Treasurer's Authority to Make Loans and Loan Terms***

The bill makes the funds in the solvency account available to the treasurer to establish the program to provide loans for municipal employee pension funds. The pension loans must (1) be at the same interest rate paid by the state on the bonds, notes, or other obligations issued to raise loan funding; (2) not exceed a 20-year term; and (3) require principal and interest payments to begin within one year after the loan issuance date.

The loans must be made pursuant to an agreement between the treasurer, acting for the state, and the municipality seeking the loan. The treasurer prescribes the agreement's form, which must contain penalty provisions for municipalities that fail to contribute to their pension funds as required under the agreement.

### ***Priority List***

The bill requires the treasurer to establish a priority list of eligible towns and a ranking system for making the loans. The treasurer must, at a minimum, consider:

1. the amount of a municipality's unfunded pension liability,
2. whether the loan can eliminate or substantially eliminate the liability, and
3. the state's interest in assisting the maximum number of communities with the funds available under the program.

The bill does not define "eligible municipality," although presumably it is one with some degree of unfunded pension liability and may be defined in the implementing regulations.

### ***Other Uses of Funds***

The bill permits the treasurer to use funds in the solvency account for certain things other than loans. The treasurer may use the funds:

1. for program administration and management costs,
2. to earn interest to be deposited in the fund,
3. to pay debt service on state bonds issued to fund the solvency account or to purchase or redeem such bonds (provided the funds used are not required for the primary purpose of the solvency account), and
4. for any other purpose of the solvency account and the loan program.

### **BOND AUTHORIZATIONS**

The bill authorizes up to \$25 million in state bonds and requires the proceeds of any bond sale be deposited in the solvency account. The bonds may be general obligation bonds or revenue bonds. The bonds, whatever their type, are subject to the standard statutory bond issuance procedures and repayment requirements (except the bill does not identify a funding source for revenue bond security).

### **COMMITTEE ACTION**

Labor and Public Employees Committee

Joint Favorable Change of Reference  
Yea 10 Nay 0 (03/13/2007)

Finance, Revenue and Bonding Committee

Joint Favorable Substitute  
Yea 48 Nay 5 (04/17/2007)